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By JOHN ZORN.

This Treatise formed the basis of the Articles published in "The Daily News" in November and December, 1919.

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An Extract from John Stuart Mill.

"To an individual anything is wealth which, though useless in itself, enables him to claim from others a part of their stock of things, useful or pleasant. Take, for instance, a mortgage of a thousand pounds on a landed estate. This is wealth to the person to whom it brings in a revenue, and who could perhaps sell it in the market for the full amount of the debt. But it is not wealth to the country. If the engagement were annulled, the country would be neither poorer nor richer. The mortgagee would have lost a thousand pounds, and the owner of the land would have gained it. Speaking nationally, the mortgage was not itself wealth, but merely gave A. a claim to a portion of the wealth of B. It was wealth to A., and wealth which he could transfer to a third person; but what he so transferred was, in fact, a joint ownership to the extent of a thousand pounds in the land of which B. was nominally the sole proprietor. The position of fund-holders of the public debt of a country is similar. They are mortgagees on the general wealth of the country. The cancelling of the debt would be no destruction of wealth, but a transfer of it; a

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wrongful abstraction of wealth from certain members of the community for the profit of the Government or of the taxpayers. Funded property, therefore, cannot be counted as part of the national wealth. This is not always borne in mind by the dealers in statistical calculations. For example, in estimates of the gross income of the country, founded on the proceeds of the income-tax, incomes derived from the Funds are not always excluded, though the taxpayers are assessed on their whole nominal income without being permitted to deduct from it the portion levied from them in taxation to form the income of the Fundholder. In this calculation, therefore, one portion of the general income of the country is counted twice over and the aggregate amount made to appear greater than it is by almost thirty millions. A country, however, may include in its wealth all stock held by its citizens in the Funds of foreign countries and other debts due to them from abroad. But even this is only wealth to them by being a part ownership in wealth held by others. It forms no part of the collective wealth of the human race. It is an element in the distribution but not in the composition of the general wealth."
—J. S. Mill.

John Stuart Mill here lays down that the owners of the public debt of a country are mortgagees on the general wealth of the country, and that the cancelling of the debt would be no destruction of wealth but a transfer of it. He thus narrows down our question of a Capital Levy to its ethical aspect, greatly clearing the ground for us. Now, in practice, ethics and economics are mingled like the wheat and tares in the parable, the reason being that Production and Trade in all their processes are based upon the great moral factor of Credit, upon the belief by man in the good faith of his fellow-man and—where money matters are concerned—of his Government. Hence any immoral tampering with General Credit

will immediately produce the economic reaction of lessened production of material necessities, therefore, both the economic and ethical effects of a Capital Levy must be considered. Assuming general agreement to our National Debt being an evil, the following practical questions arise :—

Six Questions.

1. Can the Debt be abolished?
2. What would be the resultant economic gain?
3. Can it be abolished without inflicting injustice?
4. Does the existence of the Debt entail injustice?
5. If the abolition of the Debt and its retention both entail injustice, is the injustice in each case—
    a. Ascertainable?
    b. Equal?
6. If the abolition of the Debt be an economic gain, but involve injustice, does economic gain justify an unjust action?

Now, here is a formidable list of questions, but they need to be fairly considered, and honestly answered, if we are to lay down on a sure foundation a sound policy in regard to our National Debt.

To take the questions *seriatim*.

1. Can the Debt be abolished?

The answer is "Yes." The simplest method would be by repudiation. That course would be immoral, and lay upon one section of the community, the Fundholders, a loss which should be spread impartially over the nation. Economically, it would be ruinous on account of its damage to general credit. Such a course is only conceivable by ignoramuses. Why, then, even mention it? Because repudiation makes a power-

ful appeal to the selfish element in the unpropertied classes, and ignoramuses abound in all classes.

Having ruled out repudiation, we must fall back upon repayment, which brings us to the question, "Can the Nation raise by a Capital Levy a sum sufficient to repay the Debt?" This brings us back to John Stuart Mill and his dictum that the Fundholders are "mortgagees on the general wealth of the country." Who are our Fundholders to-day?

1. Foreigners holding	£1,500,000,000
2. Citizens holding	6,500,000,000
	£8,000,000,000

Now, the foreigner can be repaid only by a transference to him of capital assets equal in value to the mortgage he holds. If those assets include interest-bearing securities, the interest of which is payable by English enterprises, we remain indebted to the foreigner to the value of the capital represented by such interest payments. But the citizens' (or internal) Debt can be extinguished without one penny of goods or money quitting the country; by rearrangement and redistribution of the country's wealth. Any such a rearrangement should, however, be in consonance with the principles of justice and equitable taxation both for economic and ethic considerations. Let us take a simple concrete example of how this could be effected as between two wealthy citizens.

The total property of Brown is worth a million sterling. Of this, £400,000 is in War Loan. Jones, also a millionaire, has his property entirely in land. A Capital Levy of 20 per cent. is decreed. Each man's property is now liable to Government for £200,000—that is to say, Government creates in favour of itself a mortgage on these two citizens' properties, and simultaneously calls the mortgage in. The Government

now holds a mortgage on Brown for £200,000, and Brown holds a mortgage on the Government (his War Debt) for £400,000. £200,000 of this cancels out against the Government claim in the National balance-sheet. In the language of book-keeping, the Credit created by Government in favour of itself can be set against an equal amount of the existing Debit in favour of Brown.

The case of Jones is not *essentially* different. He finds himself liable to the Government for a mortgage of £200,000. He has no mortgage or claim on the Government for £200,000, but his neighbour Brown wants land worth £200,000. Jones delivers the land to Brown, and receives in exchange the balance of £200,000 War Debt left over from his original holding of £400,000. Jones passes this on to the Government, and as before, in the case of Brown, the Debit and the Credit cancel out one against the other, and the National Debt is wiped off by the £400,000 which a Capital Levy on the two men realises. Here we have an example of extinction of National Debt by rearrangement of National Wealth, as opposed to extinction by repudiation. If repudiation were adopted, Brown would lose £400,000 and Jones escape scot free, instead of each man contributing £200,000 to the extinction of the Debt. Now, whatever be the amount of our internal Debt, it is always extinguishable by a rearrangement of wealth without material loss to the Nation as a whole, though many citizens would suffer individual loss. Therefore, our total Debt of eight thousand million pounds can be extinguished as to the six thousand five hundred million owned internally by a rearrangement of wealth, leaving a balance of 1,500 million external Debt, which cannot be dealt with in this way, but the repayment of which involves a corresponding material loss to the Debtor Nation.

Question No. 2.

Accepting Mill's principle that our internal Debt could be abolished by a rearrangement in the ownership of the Nation's Capital Wealth, and leaving for the time being the consideration of a plan for effecting this, let us discuss next the second question of our series, "What would be the resultant economic gain?"

At the outset, we must remember that conflicting views have been and still are very generally held concerning the advantage and disadvantage to a Nation of a National Debt. During and after the Napoleonic wars even poets became engaged in controversy on this subject, and Byron—if I recollect aright—satirises the statements of his fellow-poets "who call Debt blessing." It is urged that a Debt benefits the Nation by affording an outlet for safe investment by the thrifty; that the indirect benefits derived from the capital outlay of the Debt greatly exceed any loss to the Nation; that interest being raised within the Nation by taxes and spent within the Nation, it follows that no real loss to the Nation is involved. Now, each of these contentions is in the nature of a half-truth. The answer to the first is that thrift in the individual, by the individual, for the individual, does not *necessarily* involve the benefit of the Nation; and that the provision of a safe investment for capitalists is not the direct concern of Government, as the capitalists are only a section of the Nation, and Government is trustee for National not Sectional interests.

The answer to the second contention, that indirect gains may offset direct losses, is only applicable where the Capital outlay of the Debt has been for works of utility, like Harbours, Roads, etc., etc., and even in this case, if such works be needed, and the wealth of the Nation will allow, it is arguable that taxation for such purposes is preferable to borrowing,

even as it is sounder finance for a farmer to build a barn by economising in his current expenditure than by taking an overdraft from his bank. The third argument, that the interest being raised within the Nation no loss to the Nation is involved, I shall deal with a little later in connection with other considerations that this plea raises.

Now, our present Debt is a War Debt, and against it the Nation has to set not one penny of solid assets. To urge, as is sometimes done, that future immunity from German agression is an equivalent economic gain for our vast material expenditure may serve for academic discussion, but a man conducting his business on parallel assumptions would soon be bankrupt. To regard our War Debt as an asset is as unsound as to return as "cash in hand" a half-crown dropped over London Bridge. But our question, What would be the resultant economic gain of abolishing the Debt? involves the two further questions, Is the Debt an economic burden? and if so, Is the burden computable? These incidental questions must first be answered before our answer to the main question can be determined. With this object, the next step in our investigation is an inquiry into the Capital Assets of the Nation, their nature and their value.

The Nation's Capital Assets.

The report of the Commissioners of Inland Revenue for 1915 contains in Tables 26 to 28 particulars for the years 1904-5 to 1914-15 inclusive, of the Capital Values passing for Estate Duty. An examination of these tables shows that we can take the year 1914-15 as fairly representative of the current decade. During the latter period of the war these tables do not appear in the Commissioners' annual reports, therefore we must fall back upon the figures for 1914-15 as the latest available. Table 20 of the same report summarises as follows,

under ten heads, the value of the Capital Assets passing. I append a column giving the approximate percentage :—

	Million £.		Approximate Percentage.
Stocks, Funds, Shares, etc.	133	...	39
Cash	20	...	6
Money Lent, Mortgage, etc.	20	...	6
Trade Assets	17	...	5
Insurance Policies	12	...	3½
Household Goods	8	...	2½
Agricultural Land	26	...	7½′
House Property	56	...	16½
Ground Rents	4	...	1¼
Other Property	44	...	12½
	340	...	99¾

I give the figures to the nearest million, the full value brought under the cognisance of the Inland Revenue Department being £342,687,029.

Table 31 of the report gives the Age groups of the owners of Deceased Estates. Mortality is heaviest between the ages of 35 and 75. Out of a total of slightly over 60,000 estates, nearly 41,000, or, say, two-thirds, belong to the three Age groups of 45, 55, and 65 years. It seems, therefore, fair to assume that the Death Rate of the Propertied Classes (large and small) around the age of 50 years should give us the factor we need by which to multiply the figures of the Deceased Estates, and so obtain the relative value of Capital Assets owned by the Living.

The Peace Death Rate for the entire population is 1 in 66. At 45 years of age the rate is fractionally less, but at 55 years it is 1 in 35. At 50 years the rate does not appear to

be given in the report of the Registrar-General, but I am informed that it is taken by Life Assurance Societies at from 1 in 45 to 1 in 50. If we assume an age of 50 years, and a Death Rate of 1 in 50, we are probably taking considerably too high a factor wherewith to multiply the value of the Deceased Estates, and so obtain the presumptive total capital wealth of the Living. To be accurate, we should subtract 1 from our multiplier, otherwise we are reckoning a unit of wealth twice over, for the wealth of the Dead becomes at death the wealth of the Living. Multiplying the figures given in the preceding table by 50, we arrive at the following as the total wealth of the Living in 1914-15 :—

	Million.		Percentage.
Stocks, Funds, Shares, etc.	£6,650	...	39
Cash	1,000	...	6
Money Lent, Mortgage, etc.	1,000	...	6
Trade Assets	850	...	5
Insurance Policies	600	...	3½
Household Goods	400	...	2½
Agricultural Land	1,300	...	7½
House Property	2,800	...	16½
Ground Rents	200	...	1¼
Other Property	2,200	...	12½
	£17,000,000,000		99¾

From this Gross Total of £17,000,000,000 we must deduct, if John Stuart Mill's principle holds good, the Assets such as holdings of National Debt, Mortgages, Debentures, etc., etc., which though wealth to the individual are not wealth to the Nation. When this has been done we shall arrive at what we will term the Effective Capital Wealth of the Nation as opposed to the gross total of Individual Capital.

Table 26 of the Inland Revenue Report gives the following particulars of the allocation of the item in Table 20, "Stocks and Shares," which contribute 39 per cent. to the capital value of the Deceased Estates :—

	Million £.
Stocks or Funds of the United Kingdom	7.35
do. Foreign and Colonial	11.23
Proprietary Shares or Debentures in Public Companies	100.34
	118.92

But in Table 20 there is returned, under the head of "Stocks and Shares," 132.87 million pounds, so a balance of 13.85 million remains, of which I am unable to trace the details in the tables. The tracing, however, should be presumably a simple matter for those thoroughly conversant with the Commissioners' returns.

Let us proceed to sum up the deductions that, on Mill's principle, we must make from seventeen thousand million pounds Individual Capital to arrive at the Effective Capital Wealth of the Nation. The following items come unquestionably within Mill's category :—

	Million £.
Funds of the United Kingdom	7.35
Money Lent, Mortgage, etc.	20.00
Ground Rents	4.00
	31.35

To this must be added a proportion of the 100.34 million sterling returned as "Proprietary Shares or Debentures in Public Companies." An allowance for Debenture Capital of 15 per cent. is probably below the mark, but exact information should be procurable from the Inland Revenue officials. This

would raise our 31 million to over 46 million. Presumably Insurance Policies also come within Mill's definition of "a claim by A on the wealth of B." This would further increase our total by 12 million to 58 million, and allowing only 2 million as a percentage of the 44 million returned as "Other Property," we arrive at a total of 60 million sterling to be deducted from our 340 million Individual Capital Wealth.

Multiplying both factors by the Death Rate of 1 in 50 our sum stands :—

Million £.		Million £.
340 x 50	...	17,000
Less. Million.		
60 x 50	...	3,000

Leaving £14,000,000,000 as Effective Capital Wealth of the Nation.

My own opinion is that this estimate considerably overstates rather than understates our Effective Capital Wealth.

If Mill's principle be correct, our calculations go to prove that the Capital of the Nation is in reality smaller than generally supposed, and the return on that Capital proportionately greater, for Income is not affected by valuing Capital either up or down. An important deduction appears to follow.

If our National Capital be smaller than generally supposed, and the return upon it larger, that would explain how war involving colossal expenditure could be carried on for many years without the Nation coming to a standstill industrially. The large expenditure made apparently out of Capital would in reality have been made for the greater part out of Income, and an outstanding conundrum of economics would

be solved. I do not assert that the above hypothesis is the solution of a baffling problem, but I would suggest that it may be, and that its investigation is worth attention.

We have now arrived at a rough estimate of Total Individual Capital and Effective Capital Wealth of the Nation. Comparing "Total Individual Capital" with "Effective Capital Wealth of the Nation," we find that the former exceeds the latter by some three thousand million pounds. Therefore this amount of Individual Capital is represented by no solid National Assets, but is merely "a claim by A on the wealth of B."

The object of our immediately preceding researches was to ascertain two incidental questions, the answering of which bears upon Question 2 of our main series, "What would be the resultant gain of abolishing the National Debt?" These two questions are :—

Is the Debt an economic burden?

Is the burden computable?

Perhaps the best answer to the first question is a question in reply. What are the effects of National Debt on other borrowers? Obviously, the soundest borrower in the Nation is its Government. Therefore, whatever rate the Government will pay for money, other borrowers must pay more, the rate varying in proportion to their reputed wealth and solvency. If Government as a borrower be off the market, other borrowers will proportionately benefit. If England to-day were free from National and Municipal Debt, I suggest that money ought to be procurable on First-class Mortgage at 2 per cent. or less; the rate of return on Preference Capital should fall to 3 per cent., and money at 5 per cent. be freely available for

industrial enterprises, while our Bank Rate ought to fall permanently to the neighbourhood of 1 per cent. A stupendous development of Banking, Trade, and Industry should follow. The professional investor or Rentier would, of course, suffer by the reduction in his interest, but his loss would, from a National standpoint, be far outweighed by the gain of the Merchant and Manufacturer. A National Debt fosters the Capitalist-Rentier at the expense of the Capitalist who embarks his capital in Industry. To confuse these two classes of capitalist is an economic mistake. The Rentier is not a creator of wealth. On the other hand, the capitalist-adventurer is essentially a creator of wealth. He is probably the most valuable economic asset the Nation possesses. It is he who founds banks, constructs railways, canals and docks, opens mines, establishes factories, and runs great businesses. His ideal is to run a risk and take a profit. If his capital be confiscated, the whole Nation will suffer acutely, and general ruin may result. None will suffer in such case more severely than the lower classes, for it is the enterprise of the capitalist-adventurer that founds new industries, opens fresh markets, and creates a fresh demand for labour. The abolition of the National Debt would put economic pressure on the Rentier by reducing the return on his capital, and so stimulate him to turn capitalist-adventurer and earn a larger return by embarking in trade. This would necessitate study, watchfulness, and activity on his part to safeguard his capital. Investment in Government stock calls for the exercise of none of these qualities. The exercise of these qualities stimulates the tendency "to produce two blades of grass instead of one," and so greatly increases the production of National Wealth. Increased production is followed by an absolute bettering of conditions for all, whether the proportioned distribution be just or unjust.

The Burden of the National Debt.

Our first sub-question, "Is the Debt an economic burden?" is now answered in the affirmative; we can, therefore, turn to the computation of the burden. The interest on our War Debt of eight thousand million pounds is four hundred millons a year. What meaning shall be given to this figure? The pre-war Income of the Nation is generally agreed as being in the neighbourhood of £2,400,000,000 (two thousand four hundred million pounds). Dividing this amongst our population of forty-eight million souls, we get an average income of £50 per head. The interest on our Debt is £400,000,000, which, divided by 50, gives eight million. But as money values have doubled during the war, and as in our calculation of National Income we took pre-war figures, we must halve this figure of eight millions, leaving us with only four millions. The gross burden of the Debt, then, is apparently equal to supporting four million citizens at the average income per head of the Nation. It is obvious that unless a very large proportion of the interest raised came out of the pockets of those to whom it was paid, the Nation could not bear this burden, but even supposing that taxes of every description, direct and indirect, amount to ten shillings in the £, the burden of the Debt, measured by average income per citizen, equals the burden of supporting two million citizens who produce nothing, or an idle population of two-forty-eighths, or over 4 per cent. My computation is a very rough and ready one, but I suggest it as indicating the lines upon which an inquiry for the purpose of ascertaining the real burden of the Debt should be conducted.

Regarding the Nation as a whole, it is obvious that the annual income from which it lives is produced by its Capital used in conjunction with its Labour. The consumption of goods by citizens, such as children, the aged, and infirm, not

actively engaged in Production has to be met out of the surplus over their own consumption produced by those citizens actively engaged in the process of Production. Economic considerations pure and simple would dictate the destruction of every useless or non-productive member of the Nation. But, as earlier stated, economic considerations are inextricably mixed up with ethical considerations. Both economic and ethical considerations appear, however, to dictate as a principle of statesmanship the reduction to its minimum of the proportion of non-producers to producers, as thereby the greatest mass of wealth will be produced and the standard of life raised for the Nation's citizens as a whole. Statesmanship, therefore, indicates the extinction of the Debt as sound policy.

We can now reply to our main question (No. 2), "What would be the resultant gain of abolishing the National Debt?"

1. The abolition of a burden equal to the support of two million idle mouths.

2. The reduction of the rate of interest payable by Industry and Commerce to one-half its present rate.

3. The conversion of a non-productive Rentier Class into a class of useful capitalists through the economic pressure of a low return on capital at loan.

4. The placing of the country in an unequalled position for industrial competition with other Nations possessing National Debts through lowering of the cost of production consequent on the obtaining of Capital cheaply.

Question No. 3.

We come now to the consideration of main question No. 3, "Can the Debt be abolished without inflicting injus-

tice?" The direct reply is an emphatic "No." In all taxation there must be injustice, under every system hard cases. The necessity of mentioning this point is irritating, but there is so much unthinking clamour when taxation is debated, and exceptional cases are so continually adduced as evidence of general injustice, that it is essential to lay down clearly that Justice in taxation is never attainable, and that our object must frankly be approximation to Justice, and our plans be dictated by that consideration. Our problem, then, is how far a Capital Levy can be made in a way to fulfil the requirements of Adam Smith's first canon of taxation :—

"The subjects of every State ought to contribute towards the support of the Government as nearly as possible in proportion to their respective abilities—that is, in proportion to the revenue which they respectively enjoy under the protection of the State."

Treatment of Large Incomes.

As between capitalist and capitalist, graduation of tax according to capital possessed will meet the difficulty of injustice, leaving to be considered the question of an equitable adjustment of the burden of taxation for debt redemption, as between the capitalist and the non-capitalist. In this connection the typical case that must occur to most minds is that of the citizen possessed of personal gifts which enable him to earn a large income, gifts frequently accompanied by a temperament which leads him to spend his money as fast or faster than he makes it. Let us once more fall back on our old friends Brown and Jones. The former has a capital of fifty thousand pounds bringing him in an income of £2,500 a year, the latter is a professional man earning four times that income.

If a Capital Levy is to be made which would absorb a fifth of Brown's capital, so permanently reducing his income by £500 a year, is it just that Jones should escape untouched because he spends as fast as he makes? A remedy for this evident injustice should be devisable. A comparatively easy way would be to compel Jones to capitalise himself. Suppose, for example, Jones be assessed on a goodwill basis, and his income of £10,000 be valued at five years' purchase, or £50,000. Jones, then, becomes a debtor to the Government for £10,000. But Jones has not the money to pay. The Government allows his Debt to be redeemed by five annual instalments of £2,000 plus interest at 5 per cent. But if Jones die in the interval? Life Assurance Companies issue on easy terms policies for short periods. The Government might charge Jones an additional 2 per cent. per annum on the money he is liable to pay them, raising his 5 per cent. to 7 per cent., and this additional charge would cover the risk of Jones's death within the period of five years in which he would have to redeem his Debt of £10,000. Jones's position would then work out as follows :—

Annual Payment to Government	£2,000
First Year's Interest	500
Insurance Premium	200
First Year's Payment	£2,700

Each year his payments would diminish as his Capital Debt was redeemed until it was extinguished. In effect, against Brown's cash payment to Government of £10,000 down Jones would pay a special heavy levy out of his income, and so the injustice that would otherwise arise in the case of the two men would be obliterated. I merely instance this as one of various ways which might be devised to meet the injustice which an unthinking and indiscriminating Levy on Capital might produce.

Question No. 4.

Let us turn now to Question 4 of our series, "Does the existence of the Debt entail injustice?" The answering of this question necessitates an inquiry into the incidence of taxation on the various classes of citizens comprising the Nation. In 1909 I had occasion to make certain researches in connection with this subject, and arrived at the following result :—

Class.	Proportion expressed in percentage. Population.	Wealth owned.	Taxes paid.
Rich (defined as possessing £50,000 at death)	Under 1	About 70	About 33·1/3
Middle Classes (defined as dying possessed of £2,650).....	About 9-10	About 29	About 33·1/3
Lower Classes	About 90	About 1	About 33·1/3
	100	100	100

In arriving at the percentage of taxes paid, I credit the rich with the payment of 75 per cent. of the three items, estate duties, stamps, and income-tax, and with the whole of the land tax.

I credit the lower classes with paying (in proportion to their percentage of the population) 90 per cent. of the Customs and Excise dues, amounting together to about 68 million sterling. These dues embrace the taxes on tobacco, tea, rum, currants, coffee, raisins, cocoa, sugar, spirits, and beer.

I exclude from the consumption of the lower classes brandy, foreign spirits, wine, "other articles," licence duties, railways, and "other sources." Deducting the sum raised from these items from the total of 68 millions of revenue raised from Customs and Excise, we obtain a balance of 60 millions, 9/10ths of which is paid by the lower classes. In my calculations I credit the payment of the eight millions entirely to the rich and middle classes.

After making the foregoing allowances, I divide the proceeds of the remaining taxes proportionately between the middle classes and the rich in proportion to their percentage of the population. The result shows that each class pays about one-third of the taxes of the Nation, and not according to its total wealth. If anything, I have over-estimated the contribution of the rich and under-estimated that of the middle class.

Now, this taxation, if taken in proportion to the wealth per head of the three classes, works out proportionately thus:

We have—

(a) One rich man worth so many units of wealth of £70 each.

(b) For every such rich man ten middle-class men worth the same number of units of £3 each.

(c) Ninety poor men worth the same number of units of 3d. each.

Of every £1 of taxation levied by the Nation—

(a) The rich man pays 6s. 8d.

(b) The ten middle-class men pay 6s. 8d., or at the rate of 8d. apiece.

(c) The 90 poor men pay 6s. 8d., or at the rate of 7/8ths of a penny apiece.

Therefore—

(a) The rich man pays at the rate of 1/210th of his unit of wealth.

(b) The middle-class man pays at the rate of 1/90 of his unit.

(c) The poor man pays at the rate of 7/24ths, or nearly 1/3rd of his unit.

I was greatly interested to find some time after I had made these researches and calculations that they were substantially in agreement with figures put forward by the Socialist Party. The inference is that either two inquiries, made independently by individuals belonging to different political parties, are both wrong—a very large assumption—or that the figures above given are substantially correct.

But our question is not the major one whether our present system of taxation is unjust, but the sub-division of that question, "Does the existence of the National Debt entail injustice?" I must again fall back on my invaluable puppets. Shall we, to vary monotony slightly, dub them on this occasion *Mr.* Brown and *Mr.* Jones?

I keep, as before, to pre-war figures. Both these estimable gentlemen are bachelors with incomes of £200 per annum. Mr. Brown is the celebrated "Bill, Bill, Billy, Billy, Billy Brown, of Putney, Piccadilly, Camden Town," one of the "common-place type with a stick and a pipe" who furnish much food for amusement to our comic papers, and to whose memory we lift our hats with a lump in our throat as we pass the Cenotaph. Mr. Jones may be an equally good fellow at bottom, but he is cast in a different mould. His natural thriftiness and carefulness in money matters, reinforced by a constitution which renders indulgence in alcohol, tobacco, and sweethearts impossible to him, causes his money to accumulate at a wonderfully quick rate. Accordingly, in the hour of his Country's need it is easy for him to invest in £100 of War Loan on which Government is to pay him 5 per cent. from money raised out of the taxes. Now, let us see first what each man has contributed to the taxes during the previous year. Second, what each will contribute in the future.

	Mr. Brown.		Mr. Jones.
Income	£200	...	£200
Direct Taxes		...	Identical
Indirect Taxes—			
On 1½ pints of beer a day for 365 days	£	...	Nil
On 1 bottle of whisky a week for 52 weeks ...	£	...	Nil
On 2 ozs. of tobacco a week	£	...	Nil

Hitherto I have been doing all the statistical work for my readers. Unfortunately, I have not the data at hand to give Mr. Brown's total contribution to H.M. Revenue, but £10 per annum would certainly be below the mark.

Let us suppose that each man pays £2 10s. Income-tax and £2 10s. other indirect taxes on tea, coffee, cocoa, currants, raisins, sugar, etc. Our sum will then stand thus—

	Mr. Brown.	Mr. Jones.
Income-tax	£2 10 0	£2 10 0
Indirect Taxes—		
Tea, Currants, etc.	2 10 0	2 10 0
Beer, Tobacco, etc.	10 0 0	0 0 0
Total Taxes paid	£15 0 0	£5 0 0

Now, in the course of the year preceding the war Mr. Jones saved £100. This is represented by—

Saved at his own expense	£90 0 0
Saved at Government's	10 0 0
	£100 0 0

Primarily the above supposititious case proves the injustice of Indirect Taxation, and what we have to establish is whether

under the present system of taxation the National Debt causes unjust differentiation between taxpayers.

Let us continue our investigation of the case of Messrs. Brown and Jones. The latter has lent to the Government £100, on which he receives £5 per annum interest. As Government has to pay this interest it imposes an additional £2 10s. per annum tax on each of the pair. Therefore, Jones in reality pays half his interest to himself. Government abstracts from his right-hand breeches pocket £2 10s. and pays over to him £5 to put into his left-hand pocket. It procures the additional £2 10s. from the right-hand breeches pocket of Brown. Therefore Brown pays half of the £5 per annum Jones receives from the Government. Jones is a National Creditor. Brown and Jones are both National Debtors. Brown is a mere debtor, whereas Jones is a creditor-debtor. Now, in the Nation the Browns outnumber the Joneses by 10 to 1; they form the great mass of the population; they contribute to the taxes as shown earlier out of all proportion to their wealth, and the effect of a National Debt is to fasten upon them the bulk of the burden of the interest payments made to Jones. For example, if the £5 tax for interest payment be split equally amongst nine Browns and one Jones, each citizen pays 10s., so Jones's £5 represents a contribution of 10s. out of his own pocket and £4 10s. out of his neighbours', some of whom may be war widows and similar poor folk. It is all, as our present Premier says, "in the family"; the Debt is owned and owed in the family. The generalisation is delightfully broad, but is the Premier's a just and scientific way of looking at the question? In his work, "The Standard of Value," published some forty years ago, William Leighton Jordan directs attention to this difference between the National Creditor and the National Debtor, and its coincidence with a class division of the Nation. Our

ideal in taxation should be equality of sacrifice, and a National Debt makes against this ideal. A principle of life voluntarily passed in the enjoyment of the privileges of a Community is that in a time of stress a Nation has the right to demand from every citizen his life, *all* his labour and *all* his money. Our present economic troubles are the result of the ignoring of this principle during the war. When we embarked upon the policy of conscription we set our seal on the principle just enunciated. The policy should have been carried out to its logical conclusion, and conscription of Industry and of Wealth have followed conscription of Life. Had this been done, there would have been to-day no National Debt and no War Fortunes, no profiteering, and I venture to think no Labour troubles. There would have been much hardship and injustice to individuals, but a smaller sum total of hardship and injustice than the course we have followed has entailed.

But I submit that the answer to Question No. 4, "Does the existence of the National Debt entail injustice?" is an emphatic affirmative.

Questions Nos. 5 and 6.

Question No. 5, "If the abolition of the Debt and its retention both entail injustice, is the injustice in each case—

(a) Ascertainable?

(b) Equal?"

This question has, I submit, been incidentally answered in the course of our inquiry into Questions Nos. 3 and 4. To measure the injustice exactly is probably impossible, but that it is unequal and that the greater injustice is involved by the retention of the Debt must, I submit, be the conclusion arrived at by an impartial inquirer, and for the purpose of this general

DETAILED TABLE OF CONDENSI

Estates.					Number of Estates.
Small Estates, not exceeding £300 gross value					21,858
Small Estates, exceeding £300, but not exceeding £500 gross value					11,007
	£	Net		£	
Exceeding	100	but not exceeding		500	6,347
,,	500	,,	,,	1,000	12,302
,,	1,000	,,	,,	5,000	16,354
,,	5,000	,,	,,	10,000	3,471
,,	10,000	,,	,,	20,000	2,164
,,	20,000	,,	,,	25,000	475
,,	25,000	,,	,,	40,000	752
,,	40,000	,,	,,	50,000	235
,,	50,000	,,	,,	60,000	186
,,	60,000	,,	,,	70,000	101
,,	70,000	,,	,,	75,000	38
,,	75,000	,,	,,	80,000	41
,,	80,000	,,	,,	100,000	117
,,	100,000	,,	,,	150,000	118
,,	150,000	,,	,,	200,000	54
,,	200,000	,,	,,	250,000	34
,,	250,000	,,	,,	300,000	20
,,	300,000	,,	,,	350,000	10
,,	350,000	,,	,,	400,000	10
,,	400,000	,,	,,	500,000	17
,,	500,000	,,	,,	600,000	10
,,	600,000	,,	,,	750,000	6
,,	750,000	,,	,,	800,000	—
,,	800,000	,,	,,	1,000,000	4
,,	1,000,000	,,	,,	1,500,000	7
,,	1,500,000	,,	,,	2,000,000	—
,,	2,000,000	,,	,,	2,500,000	—
,,	2,500,000	,,	,,	3,000,000	—
,,	3,000,000	,,	,,	—	1
					75,739

FIGURES GIVEN ON PAGE 36.

Total Value.	Average Value.	Total Value multiplied by Ratio of Living to Dead.	Total Number of Capitalists on basis of Ratio of Living to Dead.
£	£	£	
4,188,633	191	209,431,650	1,092,900
4,379,668	397	218,983,400	550,350
2,854,882	449	142,744,100	317,350
10,380,536	843	519,026,800	615,100
44,612,920	2,726	2,230,646,000	817,700
29,273,439	8,433	1,463,671,950	173,550
35,111,893	16,225	1,755,594,650	108,200
12,583,546	26,492	629,177,300	23,750
25,980,008	34,547	1,299,000,400	37,600
11,513,013	47,191	575,650,650	11,750
10,768,674	57,896	538,433,700	9,300
7,967,939	78,890	398,396,950	5,050
2,877,502	75,723	143,875,100	1,900
3,285,442	80,132	164,272,100	2,050
10,801,846	92,323	540,092,300	5,850
17,497,111	148,280	874,855,550	5,900
10,005,180	185,281	500,259,000	2,700
7,120,043	209,413	356,002,150	1,700
6,949,381	347,469	347,469,050	1,000
3,435,359	343,536	171,767,950	500
3,847,904	384,790	192,395,200	500
6,648,227	391,072	332,411,350	850
5,446,235	544,623	272,311,750	500
7,164,965	1,194,160	358,248,250	300
86,205	—	4,310,250	—
4,093,070	1,023,267	204,653,500	200
5,648,698	806,957	282,434,900	350
1,826,654	—	91,332,700	—
2,252,890	—	112,644,500	—
189,668	—	9,483,400	—
12,998,288	12,998,288	649,914,400	50
307,284,039		15,364,201,950	3,786,950

inquiry into the subject, this is quite sufficient, and brings us to our concluding question, "If the abolition of the Debt be an economic gain, does economic gain justify an unjust action?" Others can reply to this question as they like, my own reply is an emphatic "No." Against the general opportunism and time-serving that characterises too many of our leading public men it is the duty of every honest soul to raise a protest and to bring arguments back to the simple old rule that "Two blacks don't make a white." Mere economic gain can never excuse injustice, and it is because of its inherent justness rather than its economic gain (though that would follow as a consequence) that a Capital Levy is to be recommended.

We have now to consider the question how to effect a Levy, but let us first examine the question of taxation of War Profits, a subject of much idle talk and careless writing, but apparently of little clear thinking. In the first place, what do we mean by a War Profit? Is it a profit resulting directly or indirectly from the War; or is it a profit made during the period of the War? In considering our answer let us take four typical cases of fortunes acquired during the War:—

"A" is a manufacturer who makes £10,000 out of War contracts.

"B" is a trader who makes a like amount out of a business having nothing to do with the War.

"C" is an author making his £10,000 out of books written during the War.

"D" inherits a like amount from an old lady who has taken a fancy to him.

Here are four fortunes made during the period of the War, but are they all War Profits? Should they all be taxed identically, and all be subject to special taxation, because the wealth was acquired during the period of the War?

Few will quarrel with the principle that money come by through the accident of fortune is a fitter object of taxation than money come by as the result of effort. But if we accept this principle, where does it land us? Clearly "D's" wealth, acquired by inheritance through the accident of fortune, is, after "A's," the fittest object for taxation. "A's" fortune only comes in front of "D's" because no citizen ought to make a profit out of his Country's misfortune; in so far as it is the result of "A's" effort, it is arguable that it should come after "D's" for taxation. Now, our "A's" to-day have made their fortunes by the sanction of the National Government, and retrospective legislation to tax that wealth specially would be a breach of National good faith. Does the making of such a profit under such conditions justify a breach of National good faith? Is this a case in which two wrongs will make a right? But if a War Profit be defined as a profit made during the period of the War, and be singled out for special retrospective taxation, what then? If "B," the trader, and "C," the author, who have made money during the period of the War, be singled out for specially heavy taxation, who gains? Not the Nation, but "B's" fellow-traders and "C's" fellow-authors who happen to make money either before or after the War period. Taxation in such case is reduced from a science to a lottery, and principle is sacrificed to vested interest, old wealth being held sacrosanct and new wealth penalised. If our object be to destroy enterprise and thrift, no more effective means could be adopted than special taxation on all wealth acquired during the period of the War. But enough has been said to show the folly of

such a proceeding. As a piece of clap-trap to catch the plaudits of an ignorant gallery such a proposal may be good enough; economically it is on a par with a proposal to exempt from Income-tax all men with an Oxford accent and women possessing beauty of form and feature.

No, if a Capital Levy be made it should be spread over all capitalists alike, new or old. A second and convincing reason for the abandonment of all idea of taxing capitalists on accession of wealth during the period of the War is the practical impossibility of ascertaining their wealth at the outbreak of the War. To tell what a capitalist possesses on a given date in the near future would be a comparatively easy task; but how many capitalists, with the best will in the world, could tell what they were worth five (by the time of the Levy it would be six) years ago? Think of the deaths in that period and the consequent passing of capital from hand to hand; think of the purchases and sales of negotiable securities in that interval; think of the variation in values of land and house property; think at all, and you will realise that the project could only originate with the unthinking. If our objects be to create a vast bureaucracy and load the Nation up with useless Governmental machinery, to encourage frauds, to render a Capital Levy abortive, no better plan could be conceived than a Levy entailing a return of a capitalist's wealth at the commencement and at the end of the War. All capitalists should share in the Levy, for the simple reason that they can best and most justly bear the burden. It has been shown earlier how the case of the spendthrift earner of a big income can be met by compelling him to capitalise himself and redeem his debt out of income. But just as when the Nation needed fighters the burden was laid on those possessing the needed physical qualities of youth and vigour, so now that it needs payers the burden must be laid on those

possessing wealth—generally the aged. Then it was the young man's turn to sacrifice himself for his country; now it is the turn of the elderly—like myself—and the old, and we must not shrink from our sacrifice when our country calls. We sent the boys to fight their fathers' battles; it is now for us fathers to foot the bill and free our sons from crushing taxation. Even if we would, we cannot leave the burden to posterity. The money for interest payments must, as shown earlier, be found by taxation within the Nation. Leaving the burden to posterity is a comforting phrase which means in reality shifting the burden from the shoulders of the wealthy on to those of the struggling, over-taxed middle classes and the poor. To see this clearly refer back to the case of Mr. Brown and Mr. Jones, the bachelors with £200 a year apiece.

If it be argued that the Levy be unfair as between the citizen possessed of capital and him not possessed of capital, it must be remembered that it is the citizen who spends every penny of his income who contributes most heavily to the annual taxation of his country.

A Dissertation on Capital.

Further, when we come to discuss the equity of a Capital Levy, consider a difficulty besetting the question as to what is Income and what is Capital. Unless we first establish a recognised Unit of Time it is impossible to distinguish what is Income and what is Capital. an obvious fact, but one important to bear in mind. To make my meaning plainer:

During the year One of the decade Brown has earned £1,000, and finds on the 31st of December that he has £100 in hand against which there is no outstanding claim.

A tax of £5 on this £100, payable on the 31st of December, is clearly a tax on Income. But on the 1st of January

of the year Two, Brown's £100, brought forward from the 31st of December of the year One, is clearly Capital, and a £5 tax, payable on that £100 on the 1st of January, is a tax on Capital. When does the change take place? Do the church bells, as they ring out the old year and ring in the new, ring also the change of Income into Capital? The division of Assets into Income or Capital requires, then, as a preliminary, the establishing of a recognised Unit of Time, and in accountancy the ordinary Time-Unit is the year. Logically, the recipient of a weekly salary who ends the week with a surplus carried forward to a second week, and is taxed in such second week, is taxed on Capital, as his Unit of Time for the receipt of Income is the week. By a parity of reasoning a partnership making up its accounts every quinquennium might argue that all receipts within that period were Income.

A graduated tax on the assets of citizens at a given period is as fair as any other system of taxation, and can by graduation be made fairer than most. On what class of capital should the burden be laid? Capital falls into two great divisions, Wealth-Producing and Non-Wealth-Producing Capital. A claim by "A" on the wealth of "B" is, from a National standpoint, Non-Wealth-Producing Capital. Let us elaborate this point—that whether a Levy on Capital will be economically harmful or harmless to a Nation must largely depend on the species of the citizens' assets on which the Levy is made. Even what is commonly termed in business "Working Capital" will generally be found to divide into two sub-divisions :—

(a) Active Capital, embracing cash and other assets actually employed in the business.

(b) Passive Capital, embracing reserves against contingencies.

Active Capital earns profit, Passive Capital earns interest. To make my meaning plainer, let us take a firm—Brown, Jones, and Robinson—in an equal partnership, with a capital of £30,000. Let them by industry and good luck have accumulated a second £30,000. Let us suppose their business does not allow of extension, so that need for further Working Capital does not exist. Then, like prudent men, they invest this second £30,000 in good securities, and hold these ready against an emergency. Let us say that their business is bringing them in a profit of 20 per cent. per annum on their £30,000, or £6,000 a year. What is the real position of each partner? He has £10,000 invested in his business, bringing him in £2,000 a year, and £10,000 in the reserve fund of his business, bringing him in, say, £500 a year. This is the correct way to look at the situation. To say that he has £20,000 invested in his business, bringing him in £2,500 a year, or 12½ per cent. on his capital, would be erroneous, because £10,000 of that money, although standing in his firm's name, is not used in his firm's business, and is simply invested in securities. If the securities for the £30,000 reserve fund were divided equally by the three partners so that each would have £10,000 in his own individual name, instead of as a partner in B., J., and R., the total profits of the firm would be diminished by £1,500 a year, and the three individual partners would each gain by £500 a year; but the earnings of the business on the actual capital employed in it would not be affected.

This is important to note, for in most businesses there is in regard to Working Capital a point which—to borrow a chemical term—is "saturation point"—that is, there is no room for the employment of further Working Capital in the business, and funds subscribed or profits undistributed can be employed only in investment outside the business. Such

reserves invested outside the business must be disregarded if we are to ascertain the real amount of active Working Capital required to carry on the business at its maximum efficiency.

It must not be lost sight of, however, that through our Banking system the Passive Capital of A. may become the Active Working Capital of B. For example, if our friends Brown, Jones, and Robinson leave their surplus fund on Deposit with their Bank, the latter may lend out such Deposit to Smith for employment in his business as Active Working Capital. It is here that our subject of the fittest assets for taxation or a Capital Levy impinges upon the great question of Credit. Just as the Banks stand behind the Trader, so in the last instance does the Government stand behind the Banks. This was proved at the outbreak of war, when but for Government action the Banks could not have met their liabilities. Behind the Government ultimately stands the Nation, and the practical solution of our economic difficulties turns on our understanding of General Credit and how to regulate it so as to promote Production of what the Nation needs and prevent waste of economic energy, such as is occasioned when labour, land, and factories stand idle.

If Brown, Jones, and Robinson were required to surrender their Reserve Capital for the purpose of Debt Redemption their business would not suffer except in some great emergency. If, in the event of that emergency, Government would afford them the necessary credit no economic damage would be done to their business or to the community of which they form a part.

The capital values of Deceased Estates leads to the conclusion that the Reserve and Passive Capital of the Nation greatly exceeds the portion employed as Active Working Capital. The bulk of the Capital Wealth of a Nation in an

old community like ours is acquired by inheritance, and the greater part of this Capital Wealth is usually retained in its Passive or its reserve form. Moreover, the prosperous Trader or Manufacturer rapidly accumulates more money than he can use in his business, and becomes an Investor, or Passive Capitalist, instead of a mere Active Capitalist. Wealth being held in such vast masses, there is no great pressure upon its owners to employ their wealth as Active Working Capital in a business under their personal direction. Now, it is the maintenance or increase of industry (with its resultant production of goods) that enriches a Nation, or, conversely, it is the restriction of Industry and Production that impoverishes a Nation. Legislation and Taxation should be dictated by consideration of the above-mentioned facts, and attention concentrated upon the point of in no way damaging Production. Therefore, the Active Working Capital of the Nation should be trenched upon as little as possible, but both this and its owners should receive the most generous treatment if a Nation is to maintain its existing prosperity and increase its future prosperity.

On Whom Should the Levy Be Made ?

Let us see where the wealth of the Country on which the Levy must be made lies. Tables 16 and 17 of the Inland Revenue Report give valuable and detailed information on this point. The following table is based on those tables, but the 31 classes of estates dealt with have been condensed into six leading and representative classes, which, for the sake of easier reference, have been specified as A to F. Columns have been added giving the number of Capitalists that may be presumed to exist in each class and the average of Capital possessed. The total amount of Capital presumably owned by each class is also shown; these figures have been calculated out on the basis of the ratio of the Living to the Dead, taken as before

at 50 to 1. The table shows the Individual Capital Wealth of the Nation was owned at March, 1915, by about 9 per cent. of the population. Of the total number of Capitalists it will be noticed that about two-thirds owned less than an average of £500 apiece, and a further fifth less than an average of £3,000 apiece, but here are the figures* :—

Group.	Number of Capitalists.	Capital owned in millions of £.	Approximate average amount owned £.	Approximate percentage of Capital owned.
A	2,575,000	1,092	425	6
B	817,000	2,231	2,730	14
C	355,000	5,724	16,125	37
D	25,000	1,785	71,500	11
E	10,000	1,731	173,000	11
F	4,000	2,804	100,000	18
	3,786,000	£15,367	£4,000	

But these are the figures at the end of March, 1915, and what we require are the figures for to-day. Presumably these will be given when the report of the Commissioners for 1919 is issued; at present they can only be surmised. In the interval the bulk of the War Debt has been accumulated, which, of course, will figure as an asset in Individual Capital Wealth, while it will figure as a debit in Effective National Wealth. Therefore, to our total of 15,367 millions sterling must be added the larger part of 6,000 million pounds, Internal Debt, after allowing for debt accumulated in 1914 and early 1915. Let us take this at 5,633 million, raising Total Individual Capital Wealth to 21,000 million. Yet even this increase will not be enough if we are to value everything at to-day's figures. Moreover, if our Debt be taken at to-day's value, so must be our assets, or our calculation will be incorrect. Now, in the interval between March, 1915,

* A detailed table of the 29 classes given in the Report will be found in centre opening of book.

and to-day some assets will have depreciated and some have increased in value, but on balance a total appreciation is probable. In 1915, amongst deceased estates, Realty figured at slightly over 95½ millions sterling, or, say, approximately 28 per cent. of the gross value of 342 million pounds returned, and Personalty for nearly 247 million pounds, or approximately 72 per cent. As War Debt is Personalty, presumably to-day's figures would show a lower percentage of Realty to Personalty, but in the interval Realty has greatly risen in value. Let us divide our 21,000 million Total Individual Wealth into—

Realty	20 per cent. (instead of 28 per cent.)
Personalty	80 per cent. (instead of 72 per cent.)
	100

Twenty per cent. of 21,000 is 4,200, and if we suppose this Realty to have undergone an all-round rise of 50 per cent., then we must add 2,100 million to our 21,000, increasing our total thereby to £23,100 million.

The rise in the value of Realty is brought home to every one of us by the rise in House Property. Has there been a rise in Personalty? As all values have risen substantially during the past four years, the inference is that there has been such a rise, but in the Stock Markets there have been both rises and falls. For example, what are known as "gilt-edged" and foreign stocks have declined substantially, and Government Stocks to-day amount to between a third and half of total stocks owned by the public. But if we allow an all-round advance of 5 per cent. on Personalty we shall probably be under-estimating. Eighty per cent. of 21,000 is 16,800, and 5 per cent. on this is 840 millions, which, added to our previous total of 23,100, gives us a grand total of 23,940, or, say, approximately 24,000 million sterling as the sum total of Individual Capital Wealth. This calculation coincides

remarkably with the addition to the 15,300 millions sterling of Individual Capital Wealth in March, 1915, of the sum raised since then as War Debt. There is, then, strong presumptive evidence that Total Individual Capital at the present time, expressed in present values, is at least 24,000 million, one-third of which is represented by War Debt, which is a Credit item to the Individual and a Debit item to the Nation.

Now, it is only reasonable to suppose that during the period of the war the total number of Capitalists in the Nation has increased. The high wages paid to Labour allowed many to save who were never able to before; War Contracts and Profiteering have increased the number of Capitalists in other classes. But while we must await the figures of later Government reports, we can fall back on our present analysis of wealth in the classes A to F in this respect, that, while the number of units per class may be larger, the proportion of Capital Wealth owned per class will presumably be the same. Adding the credit item of the War Debt, and making allowance for present-day prices, the Wealth per class must be increased by roughly one-half the total owned in 1915 to arrive at the totals owned per class to-day. The proportion roughly is :—

1915 ... 16

1919 ... 24

Half 16 is 8, which, added to 16, makes 24.

The 8,000 millions by which Individual Capital Wealth has increased since 1915 is roughly 50 per cent. of the 15,367 millions at which it stood then. Taking the figures per class as previously given, and adding the 50 per cent. increase, we arrive at the following result :—

Class.	Capital owned in millions of £ March, 1915.		Increase of 50%.		apita owned in millions of £ December, 1919
A	1,092	.....	546	.....	1,638
B	2,231	.....	1,115 +	.....	3,346 +
C	5,724	.....	2,863	.....	8,587
D	1,785	.....	892 +	.....	2,677 +
E	1,731	.....	865 +	.....	2,596 +
F	2,804	.....	1,401	.....	4,205
	15,367	.....	7,683	.....	23,050

We now come to the question, At what rate must the contribution be, per class, to raise the sum of 8,000 millions to extinguish the Debt? The average over the whole of the classes must be 33.1/3 per cent. But how can this be fairly graduated? I suggest the following as an approximately just scheme :—

Class A, I would exempt, not on grounds of justice, but from expediency. In 1915 the average wealth of this class was £425 per unit. Allowing for the 50 per cent. increase, we get £642. The capital tax such a citizen could pay would be small, and the cost and difficulty of collection great. If Class A were excluded, there is left a comparatively small number of citizens from whom the Levy would have to be collected, which would render much less expensive the erection of the collecting machinery. It would be wisest to exempt all Capitalists whose total wealth was below £1,000. As a concession to those possessing more, the first £1,000 possessed by a citizen might be exempted, thus placing the small Capitalist and the millionaire on a level in respect of this initial £1,000. Such a course would meet the demands of abstract justice. Simple exemption up to £1,000 would be the more practical plan.

The five classes B to F remain to be dealt with, and the

following table shows the flat rates within the classes which would raise 7,440 millions :—

Class.	Capital owned in Millions of Pounds.		Levy.		Produce in Million Pounds.
B.	3,346	.....	10%	.....	334
C.	8,587	.....	20%	.....	1,717 +
D.	2,677	.....	35%	.....	936 +
E.	2,596	.....	50%	.....	1,298
F.	4,205	.....	75%	.....	3,154 +
£21,411,000,000				Say	£7,440,000,000

The produce of such a Levy would probably reach 8,000 millions, for (as indicated earlier) Total Individual Wealth should be quite 24,000 million, whereas in our table we have taken it at a little over 23,000 million. Again, our figures probably err considerably on the side of under-estimation, our allowance for present-day values being on an extremely low scale.

Graduation within each class should be made on the present Super-tax system, so that individuals could be assessed fairly. Thus, for example, in Class C a citizen at the end of Class C would pay a tax approaching that for citizens at the beginning of Class D, and a citizen of Class D possessing the average capital of Class D would pay at the average rate for the class of 35 per cent. Justice between individual citizens would thus be secured.

In regard to the heavy Levy on large fortunes, it must be remembered that, while in the accumulation of small fortunes the predominant factors are industry, thrift, and skill, in the accumulation of large fortunes the predominant factor is usually successful speculation, which turns the small fortune rapidly into a large one. Apart from the fact that the larger burden is borne with greater ease by the large than the small capitalist

(because his shoulders are proportionately far stronger), in taxing large fortunes we are laying the burden on wealth acquired by luck, and not by thrift and industry. These remarks, of course, apply with double force to large fortunes acquired by inheritance, for a man being born to wealth is a matter of pure chance, and not of merit. The Levy should be for eight thousand millions, large enough to cover both the Internal and External Debts. The six thousand five hundred millions of the former could be paid off at once, and a balance of 1,500 millions remain in the Government's hands with which to pay off the latter as opportunity might render desirable. This 1,500 millions would represent a claim by the Government (A) on the Assets of the Capitalists (B), but instead of being transferred directly to the Nation's foreign creditors, it might be better for the Government to treat with these and utilise its funds for the redemption of the External Debt on the best possible terms. The ideal should be to extinguish the External Debt at the earliest possible moment, but as our total exportable capital might not allow of this except with great inconvenience and perhaps loss to the Nation, a wise conservation of National resources in the hands of an able Committee of Public Finance might be most to the Nation's advantage. As regards the payers finding the Levy, it would be of minor importance to them how the details of settlement of the External Debt were arranged. If a Levy be made, it should be made on an heroic scale; there should be no two bites at the cherry. The whole Debt should be cleared off. A Levy on a sufficiently large scale does not run the same risk of repetition that would accompany a smaller Levy. It must be faced that before long a Labour Government may be in power, and Capital Levies would appeal to many of the Labour following as an easy way to meet financial difficulties. If our Debt were once wiped out, taxation within the year for the purpose of the year should be our principle, and the

relief from taxation by the extinction of the Debt should be so enormous that the principle enunciated should be accepted even by the Labour Party. Of course, what is said does not vitiate the desirability of year by year ascertaining the accretion of capital by capitalists which might fairly be brought within the scope of the Income-tax.

Having completed our investigation into the subject of a Capital Levy, it remains to consider the lines upon which a Levy should be made, and what machinery would be necessary to carry it into effect. A necessary preliminary will be an inventory of the Nation's Assets. This inventory must distinguish between the real net wealth of the Nation and what only represents "a claim by A. on the wealth of B." A proper analysis will then show both the Total Individual Capital of the Nation and Effective National Wealth. It will be remembered that on pre-war data we estimated the former at approximately 17 thousand million pounds sterling and the latter at 14 thousand million sterling. It is questionable whether the latter item has increased during the War, but the former is, of course, larger by the amount of the increase in the National Debt. Thus, while Effective National Assets are no larger, Total Individual Assets are up by over 6 thousand million sterling, the extent of the portion of our Debt owned internally. Therefore, Total Individual Assets should be to-day in the neighbourhood of 23 thousand million sterling, of which 6 thousand million Debt accumulated during the War represents new "claims by A. on the wealth of B.," which, added to the 3 thousand million of such claims existing before the War, raises our total to 9 thousand million pounds sterling of Non-effective National Wealth, and leaves our Effective National Wealth at 14 thousand million sterling, as before the War. The inventories of Effective Capital Wealth and Individual National

Wealth would show startling discrepancies. Under Individual Capital Wealth the same underlying National Asset may frequently be returned more than once over. For example, Brown has a house worth at current market rate £2,000. In the inventory of Effective National Wealth this will duly figure as Brown's house, £2,000, and there is an end of it. In the inventory of Individual National Wealth it may be otherwise. There it may be entered—

1st	Brown's House	£2,000
2nd	Jones's Mortgage on Brown's House	1,000
3rd	Bank's Loan to Jones on security of Mortgage	500
		£3,500

The one National Asset of £2,000 may form the basis for a super-structure of £1,500 additional really non-existent wealth. Of course, Brown should return both his house and his mortgage, and show his real wealth as £1,000. But anyone who has experience of the crude views concerning Capital entertained even by those who might be supposed to understand something about the subject will readily grasp how many statisticians will tumble into the pitfall I indicate and return the same National Asset more than once over.

Again, another stumbling block will be the question of Good-will property. Take, for example, a Joint Stock Company owning a big shop or shops. Its issued Capital, say, is £300,000 in equal thirds of Debentures, Preference, and Ordinary Capital. Let it be a successful concern paying 20 per cent. on its Ordinary Capital. These shares will then stand in the market at quite £2 apiece, and be readily saleable at that figure. Of course, in Individual Capital Wealth there

will figure an item of Ordinary shares of X.Y.Z., £200,000. Yet, against this, there may not be one penny of National Assets. An analysis of the Company's balance-sheet may reveal that Effective Assets, such as land, buildings, stock-in-trade, etc., amount to only £150,000, thus covering the Debentures and half covering the Preference Capital. All that exists behind this is Goodwill. Now, the most valuable Goodwill known is that of a Bank, and five years' purchase is its full value. The £20,000 paid on the Ordinary Capital of the X.Y.Z. Company is, therefore, worth £100,000 on the basis of Banking Goodwill. On the basis of Commercial Goodwill three years' purchase, or £60,000, would be its maximum value. From this £60,000 we must deduct the £50,000 deficiency of Assets on the Preference Capital, and we are left with a National Asset of £10,000, against a return of £200,000 under the head of Individual Capital Wealth.

The inventory must further make a distinction between exportable and non-exportable Assets, as this is an all-important factor in considering whether it is possible or expedient to pay off our External Debt. A proper analysis will indicate which Assets must be allocated for what we may term the Nation's Working Capital. Consideration must be given to how far Government credit, either directly or indirectly through the Banks, can and ought to be given to the trader and manufacturer in replacement of capital of his own that the Levy might absorb. How can this inventory be made? Individual citizens of the Income-tax paying classes should be required to make a return of their capital. Registers of Land-holdings, House Properties, and Mortgages should be instituted, on which every transfer of interests should appear. At present Joint Stock Companies have every year to send in, after their general meeting, a list of shareholders to the authorities.

This return should in future be made a return of shareholders on 31st December. Bankers should be required to submit the names of holders of bearer securities the coupons of which they pay, and lists be made out of such holders on 31st December. They should also send in lists of Bank balances and deposits, with their owners' names. Traders should hand in a schedule of debts over £100 each owed to them and by them on the 31st December, and also a valuation of their stocks. All this various information should be collated on the card-index system, and the result compared with the individual returns sent in by Income-tax payers individually, with which the Government record ought, of course, to tally approximately. A reliable basis for taxation could thus be obtained. The system should be continued permanently from year to year, and track thus kept of a capitalist's annual loss or gain of capital. If this were done, capital gains made during a year might justly be assessed for Income-tax. At present, if a man buy, say, cellulose shares at sixpence apiece, and they rise to fourteen pounds, he is not liable to pay Income-tax or Excess Profits Tax on his gain unless he happen to be a professional dealer in stocks and shares. The probable reason for this state of the law is that under present conditions it is impossible to obtain cognisance of such gains; an annual return of capital would alter this and should bring large sum; that now quite legally escape, within the purlieu of the Inland Revenue Authorities. In connection with the Levy there would need to be erected temporarily a Securities Department somewhat analogous to that of the Public Trustee. This Department could receive and market as occasion might arise the various securities that might be taken over in satisfaction of the Levy. Securities taken at fair market price would be as valuable to the Government as cash, and it might be more convenient for the taxpayer to pay the Levy partly or entirely in this manner.

Similarly a Land and Properties Department should be created to deal with the realisation of lands and houses handed over at fair valuation by the taxpayer.

Possibly a Special Bank might be necessary, but probably arrangements could be made with the existing Banks to finance taxpayers pending the realisation of assets to pay the tax. The pictures drawn of everyone rushing in frenzied panic to sell securities of every description when the Levy was made, with no one possessed of money to buy, are laughable to anyone possessing a grain of common sense. Given reasonable time and banking facilities, the Levy could be carried out in an orderly way disturbing to no vital interest of the Nation, and without occasioning any inconvenience to the taxpayer apart from his loss of capital. Probably everything could be managed best through our existing Banks, at a minimum cost to the Nation, if the Banks were guaranteed by the Government in respect of overdrafts they might temporarily make to their customers. The Levy should, of course, be collected on the instalment plan familiar in connection with Joint Stock enterprise, the calls being at reasonably long intervals, with the option of further prolongation on payment of moderate interest.

Anyone experienced in the marketing of what is commonly called a "large line"—be it stocks and shares, ordinary merchandise, or land—knows that the secret of maintaining prices is merely one of affording the seller sufficient time to realise, so that he is not forced to offer stock when the market cannot absorb it. Just as it took five years to accumulate our War Debt, so it might very possibly require an equal period to liquidate the mass of miscellaneous securities the Government might acquire under the Levy. On a far larger scale we should have a case resembling the Baring Liquidation. I remember

a banker, now passed away, recounting to me one day, years after, the inner history of the memorable meeting in the Bank of England Parlour on that afternoon, when it was a question as to whether Barings should be allowed to smash or no. One of the assembled bankers retired to the corridor to weep copiously, picturing, like our Levy Panicists of to-day, a universal slump, engulfing all property and involving the end of all things financial. Fortunately, the bulk of the assembly, including my friend, were of sterner stuff, and man after man pledged his firm to the guarantee fund, with the result that Baring's securities, instead of being dumped on a market for the benefit of bargain hunters, were marketed at leisure, and a surplus of half a million left over. The formation of holding or "nursing" syndicates to prevent abnormal amounts of stock coming on the market is an everyday occurrence on the Stock Exchange, and the principle of regulating prices by controlling supply is the backbone of the present-day "trustification" of industries. The cisterns of water in our houses do not flood them while the ball-cock acts (unless the tap is turned on by Master Tommy), even so a reservoir of property will not flood a market while the taps are wisely controlled. It would be the business of the Government and the Nation to see that the taps were wisely controlled until the situation righted itself and the reservoir was gradually emptied.

As 25 per cent. of our Individual Capital Wealth consists of War Loan, presumably at least 25 per cent. of the eight thousand millions the Government would acquire under the Levy would be War Loan, which could be at once wiped out, reducing the property held by 25 per cent. During the War the Treasury, by controlling the supply of new capital issues, maintained a strong market for existent securities, which formed the only vent for investment. Similar control for a time of the supply of securities available for investors might be

instituted to help the marketing of the property acquired under the Levy. Before the War our annual surplus available for reinvestment is estimated at 400 million pounds, of which half sought reinvestment abroad. To-day it is too early to say whether there is a surplus or no, but the presumption is that one exists, or will exist in the near future. This surplus would need investment, and could be directed towards the various property which the Government might possess.

The Levy would lift such a burden of taxation off the Middle and Lower Classes that the savings of these would be greatly increased and form an important fund for the purchase of property from the Government. It would be easy to continue and enlarge upon these points of our inquiry, but enough has been said to indicate that, though the assertion that a Levy would bring Financial Panic and Ruin may be an excellent War Cry for those who fear it would hit them individually, the assertion is only an assertion, and is unbacked by the solid reasoning that must be adduced to render an objection valid.

It would be foolish on the present occasion to go further into questions of detail, enough has been said to show how the leading difficulties could be met; others could be dealt with as they arose, on the principle that "where there's a will there is a way," and that if we take from a man a large part of his capital we must be willing to replace it with generous credit, and give him ample time to pay. The Levy might be made in 1921, values being taken as on the 31st December, 1920. It would take a year to erect the necessary machinery for the Levy.

We have at last finished this somewhat exhausting and—I hope—somewhat exhaustive inquiry into the subject of a

Capital Levy. Let us recapitulate some of the more important conclusions at which we have arrived.

Some Conclusions.

1. That the Capital Wealth of England must be regarded from two standpoints :—

   a. Effective Capital Wealth, probably in the neighbourhood of 14,000 million sterling, comprising genuine national assets.

   b. Total Individual Capital, embracing Effective Capital Wealth plus Individual Wealth in the nature of claims "by A. on B.," and amounting roughly to 24,000 million sterling.

2. That the National Debt falls within the category of "claims by A. on B.," and hence forms no part of Effective Capital Wealth.

3. That the abolition of the Debt (so far as it is owned internally) is, therefore, a matter of rearrangement of claims and credits.

4. That both the existence and the redemption of the Debt would involve injustice and hard cases, but that redemption would involve much less injustice than would retention.

5. That the redemption can be effected without any loss to the Nation in its powers of production, especially if liberal bank credit be afforded to the business community.

6. That abolition could be made by a Capital Levy designed on a graduated scale.

7. That a Special Levy on profits made during the period of the War would be both impracticable and unjust.

8. That the abolition of the Debt would benefit the country enormously by reducing the rate of interest payable by Industry and Commerce and placing it in an unequalled position for production and trade compared with Nations that have debts.

Finally, what is the alternative to a Capital Levy? Next April's Budget alone will show, but a rise of Income-tax to 15s. in the £ for large incomes must be contemplated if our annual Budget at its present rate is to balance.

By April next the Nation will have to face its real financial situation, and—so will its rulers. We have three months in which the Government and the taxpayer can slumber in a world of roseate dreams and unrealities, and then we shall awaken to face an ice-cold shower-bath in the shape of three alternatives :—

A crushing Income-tax, or Profits Tax.

A Capital Levy.

Inability to meet our financial engagements, commonly called Bankruptcy. Our proposed suspension of Interest payments on our American Debt is the first indication of what may happen in this direction. We have three months to slumber on, or to think over which alternative we shall adopt.

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